

Venezuela: Investment Views on Market Impacts

Venezuela's political transition sparks global market ripples, boosting gold and the U.S. dollar while raising questions about oil production, regional politics, and global power dynamics. Explore the short- and long-term implications for investors.

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Key takeaways

- **Gold and USD strength amid geopolitical uncertainty:** Venezuela's political upheaval has boosted gold prices and strengthened the U.S. dollar, though we believe the long-term outlook for gold hinges on Federal Reserve rate cuts, inflation, and central bank buying.
- **Minimal short-term oil impact, long-term challenges:** Venezuela's current oil production disruptions are unlikely to affect global prices due to oversupply, while long-term production growth faces hurdles like infrastructure decay and underinvestment.
- **Broader regional and global implications:** The U.S.'s decisive action in Venezuela is evidence of its increasing influence in Latin America, potentially shaping regional politics and global power dynamics, including China's strategic calculations.

Geopolitical shifts in Venezuela: Implications for global markets

The recent ouster of Venezuela's president introduces a new layer of geopolitical risk, with ripple effects across global markets. Although the immediate impact appears to be limited to specific asset classes such as gold and the U.S. dollar, the broader implications for commodities, regional politics, and global power dynamics warrant closer examination.

Gold and the U.S. dollar: Safe havens in focus

In the wake of Venezuela's political upheaval, gold prices surged nearly 2%, reflecting its traditional role as a safe-haven asset during periods of uncertainty, although this effect may be short lived. As a result, we believe geopolitical events like this are a reason to own gold but not necessarily a reason to buy gold today.

In addition, investors should weigh the short-term geopolitical risks against the medium-term outlook for U.S. interest rate cuts. The U.S. dollar, meanwhile, has strengthened, benefiting from its status as a global reserve currency amid questions about the weekend's events and their implications for the global order.

While gold's rally may be short-lived if hostilities do not escalate further, its long-term trajectory may depend on factors such as Federal Reserve rate cuts, inflation trends, the relative strength of the U.S. dollar, and continued central bank buying.

Oil markets: Limited immediate impact, long-term uncertainty

Venezuela's transition of government has raised questions about its impact on global oil

markets. In the short term, we expect the effect to be minimal. Venezuela currently produces just under 1 million barrels per day, accounting for approximately 1% of global supply. With the International Energy Agency projecting a global oversupply of 3.8 million barrels per day in 2026, any temporary disruption in Venezuelan output is unlikely to significantly influence prices.

In the medium to longer term, these events are likely to exert downward pressure on oil prices. The potential for increased production in Venezuela exists but is fraught with challenges. Despite holding the world's largest proven oil reserves, decades of underinvestment, infrastructure decay, and the exit of international producers have severely constrained Venezuela's production capacity.

Even under U.S. supervision and renewed investment, a meaningful increase in output would require years of sustained effort. Major oil companies may reinvest in the country, given its vast reserves and the presumably attractive contractual terms that would be offered. Opposition leader María Corina Machado suggests production could triple to 3 million barrels per day, but achieving this may take a decade.

Regional and global implications

The political transition in Venezuela also has broader implications for Latin America and global geopolitics. The Trump administration's decisive action could increase its influence in political discourse across the region. With several key elections in Latin America slated for 2026, the success or failure of Venezuela's transition would be needed to accelerate a rightward political shift in neighboring countries. Overall, the recent actions do not change our view on the majority of the region, but we have taken note of Trump's comments about the Colombian regime.

On the global stage, the events in Venezuela may prompt other powers, particularly China, to reassess their strategic calculations. While some speculate that this could accelerate tensions over Taiwan, the efficiency of the U.S. military operation may give other nations pause before pursuing aggressive territorial ambitions.

Investor takeaways

For investors, the developments in Venezuela highlight the importance of monitoring geopolitical risks while maintaining a diversified portfolio. Growth assets like equities remain in demand, driven by optimism around artificial intelligence and strong corporate earnings. Bond yields, meanwhile, are expected to remain anchored, as markets have yet to price in significant military escalation or increased defense spending.

In summary, while Venezuela's political transition has introduced new uncertainties, its immediate impact on global markets remains limited. However, any further escalation could heighten investor uncertainty and lead to increased market volatility. For now, the focus remains on the broader drivers of market performance, including U.S. monetary policy, inflation, and technological innovation.

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